FARM CREDIT CORPORATION

Annual Report 1989 1990

INVESTING IN GOOD BUSINESS

CANADIAN AGRICULTURE

90-06067/

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The Honourable
Don Mazankowski, P.C., M.P.
Minister of Agriculture
Room 203-S, C.B.
House of Commons
Ottawa, Ontario
KIA 0A6

The Honourable
Robert de Cotret, P.C., M.P.
President of the Treasury Board
Room 333, W.B.
House of Commons
Ottawa, Ontario
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Dear Ministers:

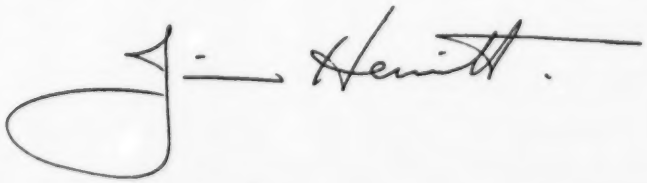
On behalf of the Board of Directors, I am pleased to submit Farm Credit Corporation's annual report for the fiscal year ended March 31, 1990.

In accordance with the Financial Administration Act, the report includes the financial statements and the auditor's report.

For the second consecutive year, we have made considerable progress. We met or exceeded virtually all performance objectives and continued to improve our management systems and practices. The expertise of FCC staff and the superior service they provided to clients directly contributed to our improved performance this year. Nationally, lending volume nearly doubled, and arrears dropped 32 per cent from the previous fiscal year.

Your government's ongoing support and leadership are gratefully acknowledged.

Yours sincerely,



James J. Hewitt
Chairman

CORPORATE PROFILE

The Corporation's mandate is to "make and administer farm loans" and to carry out "such other duties and functions as may be assigned to it by the Governor-in-Council." FCC was established and given its mandate under the authority of the Farm Credit Act (FCA) in 1959. It is a Crown agency reporting to Parliament through the Minister of Agriculture.

FCC's role is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by government, to deliver specific programs on a cost-recovery basis. Under this role, FCC is an alternative source of competitively priced credit to farmers who have significant potential for commercial viability. FCC staff provide counselling in farm planning and financial management to loan applicants and clients. The Corporation also makes and administers loans under the Farm Syndicates Credit Act (FSCA) and works with the Farm Debt Review Boards to assist farmers in resolving their financial problems.

The Corporation's head office is in Ottawa. A workforce of 175 employees is located at Head Office, and 578 employees are located in six regional offices, and 100 district and field offices across Canada.

LENDING AND FINANCIAL SUMMARY

OPERATIONAL	1989-90	1988-89	CHANGE (PER CENT)
Loans approved (Farm Credit Act)			
Number	**2,371**	1,472	61.1
Amount ($ millions)	**201.0**	102.3	96.5
Loans approved (Farm Syndicates Credit Act)			
Number	**73**	22	231.8
Amount ($ millions)	**2.5**	0.6	316.7
Loans receivable portfolio			
Number	**63,884**	67,216	(5.0)
Amount ($ millions)	**3,852.8**	4,182.3	(7.9)
Loans in arrears at year end			
Number	**8,636**	10,418	(17.1)
Amount ($ millions)	**193.3**	283.5	(31.8)
Real properties at year end			
Number	**1,864**	1,485	25.6
Amount ($ millions)	**178.3**	135.6	31.5

FINANCIAL	1989-90 ($ MILLIONS)	1988-89 ($ MILLIONS)	CHANGE ($ MILLIONS)
Revenues and expenses			
Net interest income (expense)	**30.3**	(27.8)	58.1
Net provision for loan losses	**3.2**	(20.2)	23.4
Net revenue from real estate	**20.8**	11.1	9.6
Other income	**1.7**	1.4	0.4
Administrative expenses	**47.3**	39.4	7.9
Large corporations capital tax	**5.0**	-	5.0
Loss for the year	**2.7**	34.6	(31.9)
Non-accrual loans			
Total owing on non-accrual	**641.4**	808.2	(166.8)
Reduction of interest income due to non-accrual	**30.9**	75.0	(44.1)
Financial position at year end			
Total assets	**3,816.7**	4,031.7	(215.0)
Total liabilities	**3,890.6**	4,702.9	(812.3)
Deficiency of Canada	**73.9**	671.2	(597.3)

CHAIRMAN'S REPORT

This Annual Report reflects another year of improved operating results. The commitment of our Board, Management and Staff has enabled the Corporation to achieve the goals and objectives for the year.

Acknowledgement is given to two of our Directors, Mr. Georges L'Heureux of St. Elzéar, Québec and Mr. Blois Dingwell of Midgell, Prince Edward Island, who retired in the past year. Their contribution to the Corporation was greatly appreciated. Mrs. Jeannine Bourque of Beauce, Québec and Mr. John McKenna of Cardigan, Prince Edward Island were appointed in 1989 to replace our retiring directors.

ACHIEVEMENTS

This fiscal year was marked by numerous milestones. Our lending activity nearly doubled that of the previous year, with $201 million of loans granted compared to $102.3 million in 1988-89.

The quality of our loan portfolio improved as the number of accounts in arrears dropped to 8,600 as at March 31, 1990 from 10,400 as at March 31, 1989. The amount of arrears declined from $283.5 million in 1989 to $193.3 million as at March 31, 1990. Arrears as a percentage of FCC's total loan portfolio declined from 6.8 per cent in 1989 to 5.0 per cent as at March 31, 1990.

Operating results also showed considerable improvement. Our loss from current year's operations totalled $2.7 million as compared to $56.9 million for the fiscal year ended March 31, 1989. Our goal is to achieve a break-even position by March 31, 1991.

Property management and land sales have become an integral part of the Corporation's activities. In many cases, FCC has leased the farm property back to the original owner with an option to purchase the land at the end of the three-year lease. During 1989, 160 leases expired with half of the lessees exercising their option to purchase all or part of the leased land. In 1990, approximately 650 leases will expire and, due to depressed commodity prices, particularly wheat, it is anticipated that a number of farmers will not be in a financial position to exercise their option to purchase. In light of the 1990 forecast of reduced farm incomes, the Minister of Agriculture requested the Corporation to review the current three-year leasing policy. In March the Board of Directors amended the Corporation's leasing policy to allow for a three-year extension of the expiring leases. The lease extension also provides for an equity-building program to assist farmers in raising the down payment required to exercise the option to purchase at the end of the lease extension. Initial reaction to the announcement has been favourable.

Land sales have also been substantial, allowing the Corporation to return considerable acreage to private ownership. The activity in lending and land sales reflects a note of cautious optimism that farmland values have stabilized and opportunities are available for land acquisition or farm expansion. During the fiscal year, the Corporation sold 334,000 acres of farmland to individual buyers.

In a period of unsettled interest rates, the Corporation has been able to maintain competitive interest rates. The matching of funds, monitoring and recommending

interest rate adjustments, and timely borrowing of funds also allowed the Corporation to exceed the interest rate margin established in our 1989-90 business plan. The result of this behind-the-scenes work enabled the Corporation to attract new clients and substantially increase loan volume.

It is important to emphasize that the measure of success FCC experienced this past year did not come at the expense of those clients who are in difficulty. FCC continued to be flexible wherever possible, in many cases reaching solutions that enable the farmer to remain on the land. Staff continued to work closely with Farm Debt Review Boards and Provincial Mediation Boards, providing arrangements whereby farm debt could be restructured. In the past year, FCC approved 1,604 concessions through the Farm Debt Review process. Such assistance has enabled many families to retain and rebuild their farm assets.

In 1989, the federal government, FCC's sole shareholder, approved a contribution of $200 million in capital, in accordance with its 1988 commitment to improve the Corporation's capital structure. This additional capital provides further financial stability for the Corporation, including the repayment of $200 million in long-term debt to Canada, and ensures that future clients will not be penalized by past FCC losses.

As the Corporation moves into the third year of its recovery strategy, we can take satisfaction in our achievements to date. Corporate policies have been redefined and improved. Our management team is coordinated and effective and staff efficient and well motivated. Information and accounting systems have been substantially improved, providing the Corporation with current and accurate data on which to plan.

COMMUNICATIONS

In the latter part of our fiscal year, management and staff turned their attention to rebuilding our image as an effective lender in the agricultural sector. Across Canada, staff have been able to shift their efforts from administration and collection of accounts to loan granting because of the reduction in the number of accounts in arrears and the general improvement of our loan portfolio.

The Corporation has developed an effective communication and advertising program. In January 1990, our new corporate slogan "*Investing in Good Business - Canadian Agriculture*" was adopted and a modest advertising campaign was undertaken. The main purpose of the campaign was to make the farm community aware that FCC is in the lending business, has loan products specifically designed for the agricultural sector and has experienced staff ready and able to work with farmers to develop effective business plans. To date, this communication effort has contributed to a 41 per cent increase in lending activity in the January to March quarter over the same period last year. The rebuilding of our loan portfolio will provide us with the foundation on which to develop further financial and management programs for Canadian farmers.

CANADIAN AGRICULTURE POLICY REVIEW

In December 1989, the Honourable Don Mazankowski, Minister of Agriculture announced a major agriculture policy review. The review process, which commenced with a conference and discussion paper entitled "*Growing Together*", enabled organizations and individuals to provide input to the government on an effective approach to policy review. Following the conference, several task forces were established to receive input, analyze data and provide policy options to the Minister from which a new Canadian agriculture policy could be developed. This timely, comprehensive review will allow government policy decisions to be made to ensure Canadian farmers have a level playing field on which to compete with other countries in the world marketplace.

Farm Finance and Management, including Farm Credit Corporation's role, are the focus

of one of the task forces formed as part of the review. This Task Force on Farm Finance and Management is to submit its report to the Federal/Provincial Agriculture Ministers' Conference in August 1990. In conjunction with the review, FCC has been asked to undertake a survey of approximately 8,000 farmers across Canada to provide the Task Force with a current report on the financial condition of the Canadian farm community.

FCC welcomes the policy review as we see it as an excellent opportunity to provide our views and recognize the views of others as to what the needs of the Canadian farmer are in the 1990s.

AUDITOR'S REPORT

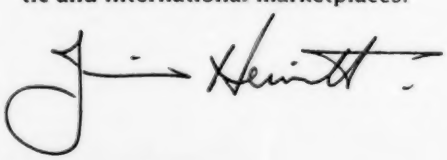
In the fiscal year 1987-88, the Corporation increased the allowance for loan losses to $500 million as management's best estimate as to the probable losses on loans outstanding at that time. Since then, a net reduction of the allowance by $221 million has taken place, primarily as a result of actual losses incurred on loans that have gone through the recovery process. As at this fiscal year end, the balance of the allowance stands at $279 million and represents management's best estimate of probable losses on the loans outstanding.

The potentially negative impact on the farmers' ability to meet debt obligations and on the value of the Corporation's security for these loans, of factors such as a continuation of high interest rates, international trade disputes (particularly in the grain sector), forecasts of reduced farm incomes, and the uncertainty of the outcome of the current GATT negotiations has, in management's judgement, made it necessary to account conservatively for probable loan losses. The Auditor General, however, did not share management's opinion regarding the evidence supporting our conservative position and has therefore included a reservation in his report on our financial statements.

IN SUMMARY

The past decade has been one of constant change. Inflation, recession, the Canada-U.S. Trade Agreement, drought, volatile export markets, and high interest rates have all had an impact on Canadian agriculture and its related service industries. The 1990s will probably not be too different; however, development of long-term policies both nationally and internationally through the multi-national trade negotiations will help the Canadian agriculture industry deal with the pressures of change. The current GATT negotiations alone may require us to change some of the ways we do things. The outcome of these talks could mean we will have to be more competitive in the international marketplace with regard to price and product quality. Since Canada exports more than half of its agriculture production, international trade negotiations will continue to have a major impact on our agricultural industry. The Canada/U.S. Trade Agreement, combined with a consolidated European Economic Community in 1992, will represent some six hundred million consumers. These markets can open doors to the Canadian agri-food industry if we are willing to take the initiative and be aggressive. A well-defined Canadian agricultural policy will help farmers take advantage of these market opportunities.

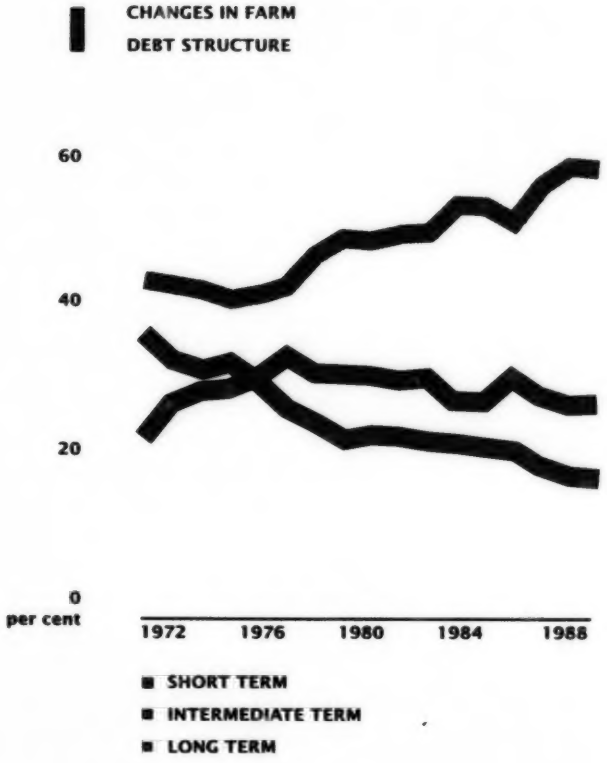
As we look to the future, I am confident Farm Credit Corporation will have an important role to play in the further development of Canadian agriculture. The Corporation, within the framework of a national agricultural policy, will continue to evaluate its products and services, striving to improve them to better meet the changing needs of Canadian farmers, as they address the challenges and opportunities of the domestic and international marketplaces.



James J. Hewitt
Chairman

FCC'S OPERATING ENVIRONMENT

Many factors affect the operations and financial performance of Canadian farmers and, consequently, of Farm Credit Corporation. Farmers' willingness to borrow for major capital investments and their repayment ability depend on many elements that are difficult to control. FCC's 1989-90 operating environment was influenced by agricultural economic conditions, national and international policy development and provincial and federal programs and legislation.



The 1989-90 year began on a cautious note, particularly in western Canada, following the 1988 drought and little precipitation in many areas during the winter of 1989. However, more favourable climatic conditions in the spring and summer of 1989 generated cautious optimism in the farming community and more demand for farmland. Increased farmland values in 1989 combined with decreased interest rates encouraged some farmers to carry out their plans for expansion. However, it appears that fewer purchases were debt financed as farmers attempted to limit their use of credit and lenders placed a greater emphasis on repayment ability.

Other factors added to the caution in the farm community. The uncertainty of the Canada/U.S. Trade Agreement and the GATT negotiations reduced some farmers' willingness to make major capital investments, particularly producers of supply-managed commodities. The announcement of a major federal agricultural policy review has boosted the optimism of some farmers and escalated the concerns of others.

There was considerable variability in farm incomes and profit levels among commodities in 1989-90. The grain and oilseeds sectors recorded higher incomes in 1989 as inventories were sold off at relatively high prices. The beef sector experienced relatively stable prices and conditions, although margins for feedlot operations were reduced. Except for a few months last fall, hog production was not as profitable, and future profits are even more uncertain as a result of the U.S. countervailing duty. Dairy producers' incomes remained stable during the year

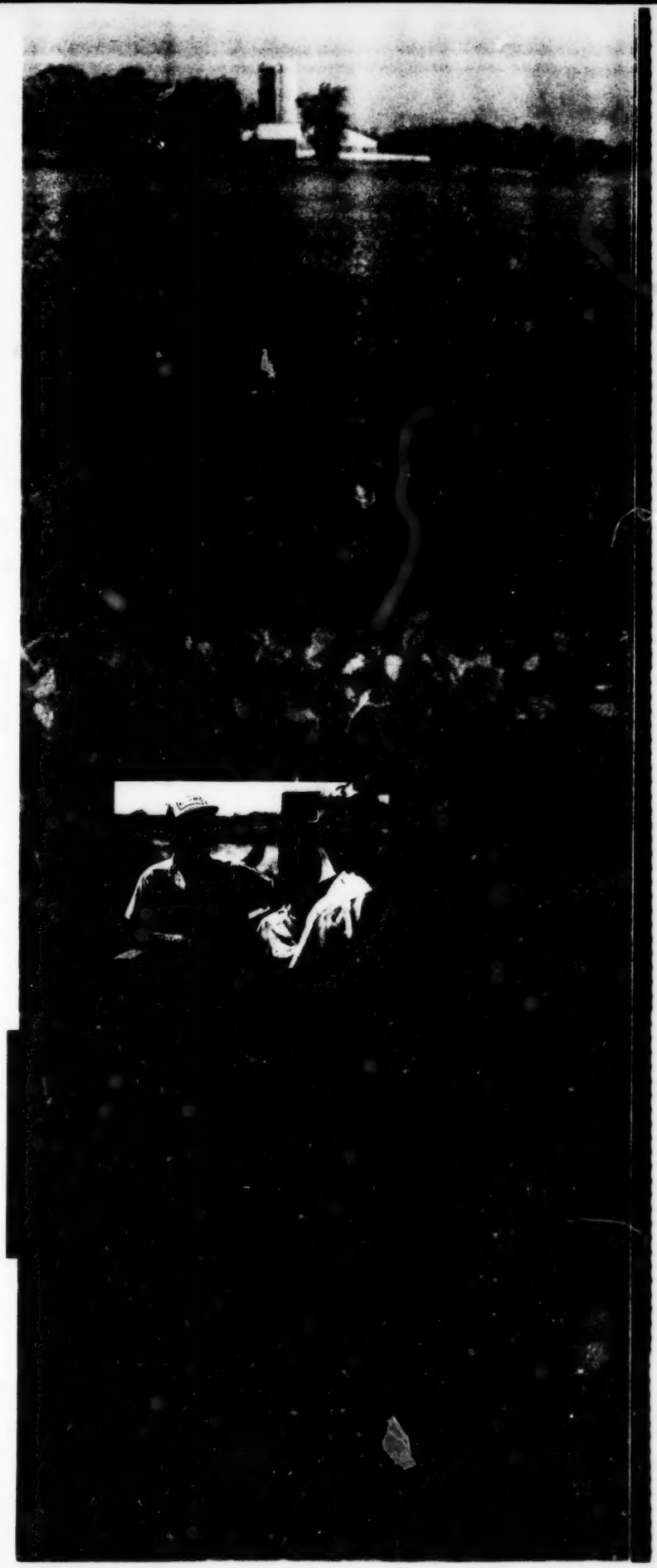
although the GATT negotiations continued to fuel producers' concerns. The fruit industry was also fragile, especially apple and grape production.

Access to provincial programs offering subsidized interest rates decreased the demand for FCC loans in some areas. In the early 1970s, the Corporation's share of the long-term credit market was about 60 per cent. In the late 1970s the banks and credit unions entered the market and by 1988 FCC's share had dropped to just over 32 per cent.

The total amount of credit outstanding and extended has been dropping for the last few years as farmers consolidate their debt situation. High interest rates, recoveries, debt write-offs, repayments and prepayments by farmers again reduced the amount of farm credit outstanding in 1989-90 in Canada.

Indices such as debt ratio, number of farmers in arrears, land values, Farm Debt Review Boad activities and farm bankruptcies show that the number of farmers in financial difficulty is decreasing. However, the situation is critical in the Prairies with a considerable number of borrowers still in arrears.

FCC's increase in lending activity this year during a period of limited growth in total credit demand is attributed to continued caution by commercial lenders in certain areas, financial pressures on provincial treasuries and active marketing of FCC's products and services.



REPORT ON 1989-90 CORPORATE OBJECTIVES

PRIMARY OBJECTIVES

1 ***"To be an alternative source of competitively priced credit*** *to Canadian farmers whose businesses have reasonable potential for viability."*

• To help achieve this objective, FCC launched an advertising campaign to ensure the farming community was familiar with the changes to, and the availability of, its products and services. This initiative, combined with competitive interest rates, resulted in 2,371 loan approvals for $201 million in 1989-90 compared to 1,472 loans for $102.3 million in 1988-89.

2 ***"To work with financially distressed clients*** *to resolve their financial difficulties quickly and equitably so that by the end of the five-year planning period in 1993-94, 93 per cent of the dollar amount of FCC's loan portfolio and 97 per cent of the accounts will be classified as full accrual."*

• By working with clients in difficulty and, where appropriate, working with Farm Debt Review Boards, many problem accounts were resolved. Since the inception of the FDRB program, 93 per cent of the 6,034 hearings have resulted in resolution. In 73 per cent of all cases resolved, the farmer continued farming. As a result, 83 per cent of the $3.9 billion portfolio was classified as full accrual, compared to 81 per cent last year. With normal conditions in the farm sector over the intermediate term, this objective should be achieved by 1993-94.

3 ***"To restore the Farm Credit Corporation to an economically viable position*** *by seeking an appropriate capital structure and conducting its lending on a break-even basis."*

• The first phase of the Corporation's financial restructuring involved a capital contribution of $400 million in addition to the $200 million which was contributed in 1989-90. This enabled the Corporation to repay $600 million in long-term debt to Canada. This, combined with achieving our target margins over our cost of funds, plus the continued efforts of staff to add good quality loans to FCC's portfolio, has taken the Corporation one step closer to financial viability.

ENABLING OBJECTIVES

1 ***"To explore and develop new products and services*** *for the benefit of Canadian farmers."*

• Farm Credit Corporation initiated its fourth survey of the financial structure of Canadian agriculture. Survey results will be available in the fall of 1990 and should provide information on the changes in the financial structure of the farm sector and the changing credit needs of farmers.

• The Corporation initiated a project to build industry consensus on standardized farm financial accounting terminology and reporting procedures. These standards will assist in the reporting and analysis of farm financial

information and should develop consistency among those institutions providing financial and farm management services to the farm sector. This project is being conducted in cooperation with the Ontario Ministry of Agriculture and Food, and Employment and Immigration Canada.

• The Corporation's advisory services program and the Farm Syndicates Credit Act lending program have been evaluated. As a result, modifications in the advisory services program have been initiated and changes to the Farm Syndicates Credit Act will be proposed when farm credit legislation is being considered by the government.

• A one-year mortgage has been developed and will be implemented in 1990-91.

• A lease equity-building program has been developed for implementation in 1990-91 for those farmers whose leases expire in 1990-91. This feature will also be available for new leases.

2 *"To optimize corporate performance* *by applying sound business principles and practices."*

• The Corporation continues to improve its systems and practices to provide accurate and timely information for decision-making. As a result, the Corporation has achieved or out-performed financial targets in the following key areas:

- The loss from the current year's operations of $2.7 million is $70.7 million better than the $73.4 million loss anticipated in FCC's 1989-90 operating budget.

- The arrears of $193.3 million are 32 per cent lower than the $283.5 million arrears last year and are near the $190.8 million target established for 1989-90.

- The interest margin at 2.34 per cent on lending is above the target of 2.25 per cent.

FCC CONTINUES TO SERVE MANY FARM FAMILIES SUCH AS YOLANDE AND YVES ROUX, DAIRY FARMERS FROM TINGWICK, QUÉBEC.

CREDIT ADVISOR KEITH DIXON (LEFT) MEETS WITH EMMA AND NICK GERBER, DAIRY PRODUCERS FROM WELLESLEY, ONTARIO

3 ***"To assist employees*** *to continue to maximize their performance through training and a positive working environment."*

• In supporting a work environment conducive to improved productivity, creativity and commitment to our clients, the Corporation:

- undertook initiatives across Canada to reinforce the importance of providing service that meets or exceeds the expectations of FCC's clients.

- provided employees with tools and delivered courses to assist in making our clients aware of the Corporation's products and services.

- provided resources where workloads were considered excessive to ensure that superior service to our clients could be maintained.

4 ***"To attract outstanding new employees*** *including representative numbers of women, disabled persons, aboriginal peoples and visible minorities through excellence in recruiting measures."*

• Through its emphasis on quality recruitment, effective promotional processes, and development initiatives, the Corporation has attracted and retained a highly qualified and committed staff, dedicated to serving the agricultural community and assisting FCC in meeting its business objectives.

• FCC improved the representation level of women in its largest professional category, the credit advisors group, made positive strides with regard to the representation levels of members of all special-interest groups and provided personal development opportunities to assist in the realization of its employment equity objectives.

LENDING OPERATIONS

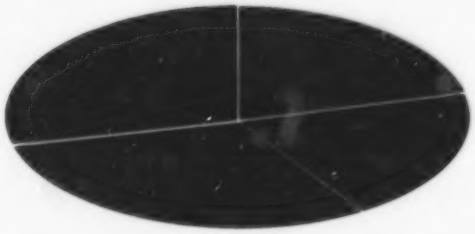
The Corporation approved 2,371 loans this year, as compared to 1,472 the preceding year. Most of the loans were to purchase additional land (37.3 per cent) or to repay debts (38.2 percent). The net amount of the loans, $201 million, far exceeds the $102.3 million in loans approved last year.

The Corporation has always been dedicated to offering farmers the best loan products available. This commitment has led to the development of a financial analysis software package, an effective tool our financial counsellors can use to help borrowers manage their farm businesses better. FCC will continue to pursue this and other initiatives to ensure Canadian farmers have access to leading-edge farm financial management technology.

Other projects for improving client service were also implemented this year. The Corporation has completely revamped the loan application forms to make them easier for farmers to use and understand. The new forms are compatible with the financial analysis software and together they will allow faster, more complete processing of financial information.

FCC's decentralized operations allow greater delegation of authority to our credit advisors, thus providing a faster response to farmers' loan applications.

LOANS APPROVED IN 1989-90 UNDER FARM CREDIT ACT



- **5 YEAR**
  571 LOANS
  $43.0 MILLION
- **10 YEAR**
  761 LOANS
  $61.5 MILLION
- **6 YEAR**
  478 LOANS
  $38.8 MILLION
- **15 YEAR**
  561 LOANS
  $57.7 MILLION

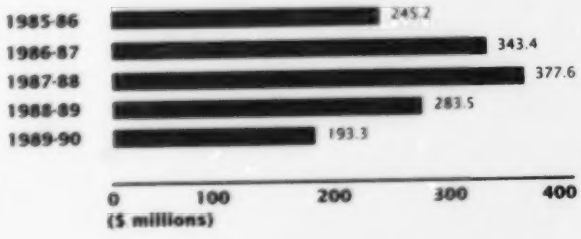
More and more farmers today hold a second job to diversify or to supplement their income. In step with this new reality, FCC has broadened the definition of "principal occupation" to allow our credit advisors to accommodate farmers who have other jobs but who are still committed to agriculture. We have also introduced a streamlined structure for administrative fees. Prepayment privileges have been introduced, appraisal fees have been revised and application fees are no longer required.

FARM FINANCIAL MANAGEMENT

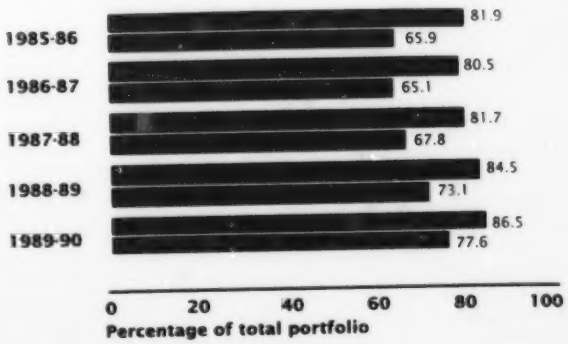
For a number of years, FCC has offered its borrowers counselling services in farm financial management. To determine if the services offered still meet farmers' needs, FCC conducted an evaluation of the program. The findings of the survey confirmed the need for such a product and pointed to the need to modify FCC's counselling services.

Based on farmers' feedback, a modified advisory services product is being designed to assist farmers in making the best business decisions possible. Access to such services provides additional tools to help clients succeed through better financial analysis and planning. With the cooperation of farmers and our staff, a pilot project will be completed during the next fiscal year, with the product to be introduced across the country in the spring of 1991.

LOAN PAYMENTS IN ARREARS
BY FISCAL YEAR



ACCOUNTS IN GOOD STANDING
BY FISCAL YEAR



LOAN ADMINISTRATION

Reducing arrears continued to be a major priority for FCC. Arrears totalled $193.3 million by the end of the fiscal year, a drop of 32 per cent from a year earlier. Although the reduction in arrears this fiscal year fell just short of target, the result was encouraging. This is the second consecutive year that arrears have decreased after climbing for 13 years.

While substantially reducing arrears, the Corporation has maintained a policy of being firm but fair. Every account in arrears is considered individually, with the focus on analyzing all reasonable alternatives and where possible, finding a solution. Hence, when farmers face difficult situations, we are ready to look at all alternatives to enable them to continue operating their farms.

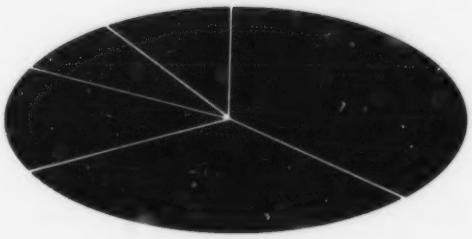
Across Canada, approximately 86 per cent of FCC's accounts are in good standing. Improved loan administration systems, which require closer contact with clients, enable FCC to monitor loan risk. This, combined with FCC's Portfolio Risk Management Program, assist in managing risk of losses and continue to contribute to the strengthening of FCC's loan portfolio.

PROPERTY MANAGEMENT

When loan arrears cannot be paid, farmers are encouraged to seek a solution with the aid of the Farm Debt Review Board. When debt restructuring is not possible, a voluntary transfer of the property is often the only solution. In most cases, FCC leases the property back to the former owners to allow them to continue their farm operations. At the end of the fiscal year 1,128 properties were leased this way. Most of the leases are for three years with an option to purchase at the end of the term.

During 1989-90, the Review Boards received 2,143 requests from our clients, and 1,997 were resolved. We approved 1,604 concessions. These concessions were valued at $41.8 million, compared with $40.9 million in 1988-89.

FARM DEBT REVIEW BOARDS
CONCESSIONS GRANTED (1989-90)
$41.8 MILLION



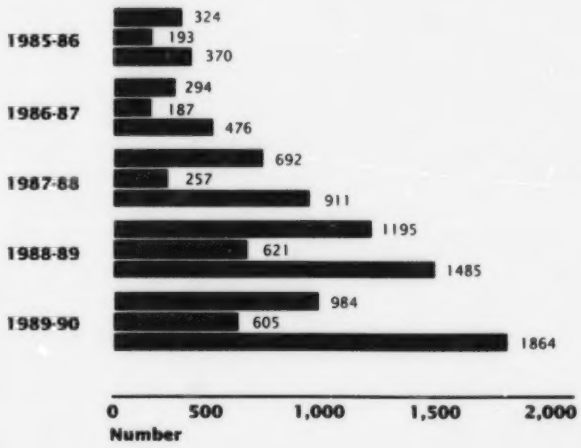
- **LEASE BACK TO ORIGINAL BORROWER 37%**
- **FORGIVENESS OF ARREARS 30%**
- **REDUCE INTEREST RATE 16%**
- **SELL BACK BUILDING SITES 8%**
- **OTHER 9%**

TABLE I

FINANCIAL CHARACTERISTICS OF FARM OPERATIONS BORROWING FROM FCC (EXCLUDING CBL)

	1989-90 (AVERAGE)	1988-89 (AVERAGE)
Total assets	**$732,850.0**	$634,083.0
Per cent net worth	**63.2**	60.7
Loan approved gross	**$ 90,464**	$ 83,894
Loan-to-security ratio	**0.65**	0.54

ADMINISTRATION OF PROPERTIES
BY FISCAL YEAR



- **PROPERTIES ACQUIRED**
- **PROPERTIES SOLD**
- **PROPERTIES ON HAND**

TABLE 2

LOANS APPROVED BY PROVINCE (FARM CREDIT ACT)

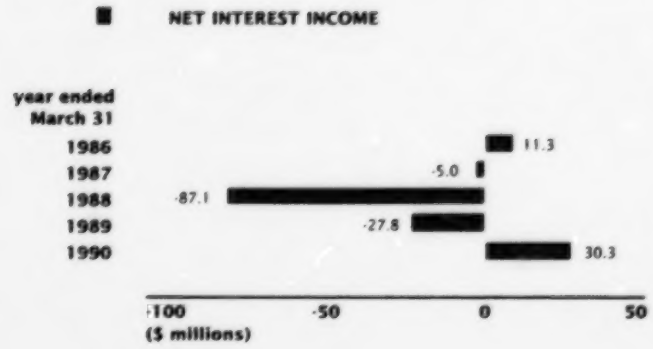
	1989-90		1988-89	
	NUMBER	**NET AMOUNT ($000'S)**	NUMBER	NET AMOUNT ($000'S)
British Columbia	**97**	**12,667**	49	5,329
Alberta	**85**	**7,133**	117	6,884
Saskatchewan	**751**	**43,242**	558	28,698
Manitoba	**315**	**19,277**	156	5,994
Ontario	**431**	**50,185**	260	25,150
Québec	**603**	**60,693**	262	23,376
New Brunswick	**46**	**3,289**	41	3,714
Prince Edward Island	**31**	**2,380**	20	1,493
Newfoundland	**12**	**2,105**	9	1,648
Canada	**2,371**	**200,971**	1,472	102,286

TABLE 3

LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31, 1990 ($000'S)

	NUMBER	PRINCIPAL NOT DUE	ARREARS	ACCRUED INTEREST	AMOUNTS HELD FOR FUTURE INSTALMENTS	NET TOTAL
British Columbia	1,992	143,438	4,111	6,205	(4,876)	148,878
Alberta	10,021	456,854	21,098	27,051	(5,628)	499,375
Saskatchewan	21,542	1,218,614	112,797	75,669	(9,678)	1,397,401
Manitoba	6,362	296,029	20,897	14,839	(4,610)	327,156
Ontario	15,232	1,012,142	27,934	40,000	(23,790)	1,056,286
Québec	6,953	423,543	3,411	16,467	(7,728)	435,693
New Brunswick	842	52,414	1,139	2,474	(1,414)	54,613
Nova Scotia	85	3,603	155	127	(100)	3,785
P.E.I.	725	36,128	1,366	1,960	(822)	38,632
Newfoundland	130	11,956	410	462	(476)	12,352
Canada	63,884	3,654,721	193,318	185,254	(59,122)	3,974,171
Adjustment to principal and interest relating to non-accrual loans		28,097	74,496	18,799		121,392
Loans receivable	**63,884**	**3,626,624**	**118,822**	**166,455**	**(59,122)**	**3,852,779**

FINANCIAL OPERATIONS



The results achieved by FCC, in helping Canadian farmers succeed, have been built on a foundation of sound financial management. Fiscal year 1989-90 marked the second consecutive year of significant financial recovery for the Corporation. Loss from current year's operations was $2.7 million, compared to $56.9 million in 1988-89. The improvement in results was due primarily to a combination of a significant reduction in non-accruing loans, reduced interest expense resulting from the repayment of long-term debt owed to Canada and higher property lease revenue.

The balance sheet also reflects an improved financial position as a result of the $600 million contribution of capital by the government and the resulting repayment of $600 million in long-term debt due to the government. Of this $600 million investment, $400 million was approved by the shareholder for the fiscal year 1988-89. The payment of these funds, however, could not be made until Parliament authorized an increase in the Corporation's contributed capital. Parliament authorized this increase in the fiscal year 1989-90, thereby allowing the payment of $400 million approved in the fiscal year 1988-89 and $200 million approved this fiscal year. This restructuring represents the second phase of the financial strategy designed to make the Corporation operationally effective and financially viable.

OPERATING RESULTS

Net interest income in the past year was positive for the first time in the last four years. A reduction in the number of non-accrual loans through recovery actions and collection efforts, combined with lower interest expenses, resulted in net interest income of $30.3 million.

Administrative expenses increased from $39.4 million in 1988-89 to $47.3 million in 1989-90. This increase was due partly to increased resources allocated to property management, land sales and activities to help clients resolve their financial difficulties. Other factors contributing to higher expenses were the increased lending volume, nearly double that of the previous year, and the achievement of a 32 per cent reduction in arrears.

Additional funds were allocated to launch a national advertising campaign to increase awareness of the products and services offered by the Corporation. Expenditures were also incurred to develop lending and financial controls and reporting systems, and to upgrade computer hardware and storage capacity.

Although administrative expenses increased, net interest income, together with substantially higher lease revenue, fully covered the Corporation's administrative expenses and provision for loan losses.

The Corporation is subject to the large corporations capital tax introduced in the April 1989 budget. The tax payable over the nine month period ended March 31, 1990 is $5.0 million, which is reflected in our statement of operations.

LOANS RECEIVABLE

The loans receivable portfolio at $3.9 billion reflects a decline of 8 per cent during the year, despite a successful lending year in which $201 million in new loans was approved. Reductions to the portfolio through borrowers' repayments and prepayments, loan write-offs and the conversion of loss accounts to properties exceeded the additions from new lending.

However, with a lower percentage of borrowers in financial difficulty and careful management of the risk assumed on new lending, the quality of the portfolio has improved. The year-end allowance for future loan losses was $71 million lower than the previous year end. Arrears were $90 million lower and the total owing on non-accruing loans was $167 million lower. This improved trend in the quality of the loan portfolio as measured by arrears, non-accrual loans and loan loss allowance is illustrated in Table 4.

ALLOWANCE FOR LOAN LOSSES

The Corporation began the year 1989-90 with an allowance of $350 million for probable future loan losses on the loans outstanding at that time. During the year, losses of $74 million were recorded, net of recoveries of previous amounts written off. These losses comprised actual loan losses, write-downs of real estate, and losses on the sale of real estate.

After adding $3.2 million to the allowance to provide for potential losses on the new lending during the year, the allowance at March 31, 1990 stood at $279 million. After considerable detailed assessment of the portfolio and taking into account the uncertainty facing Canadian agriculture today, the allowance has been maintained at $279 million. It is, in management's opinion, an appropriate and prudent amount to provide for probable losses on the loans receivable portfolio.

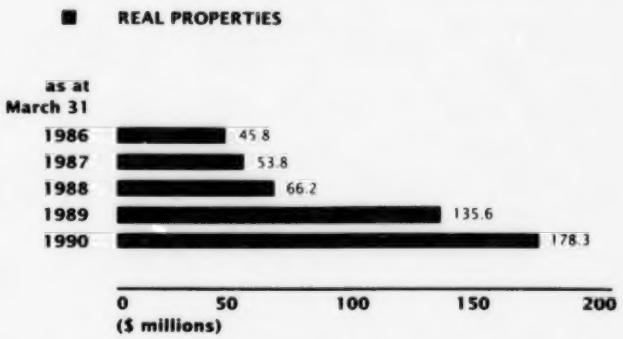
TABLE 4

LOANS RECEIVABLE ANALYSIS

AT MARCH 31 ($ MILLIONS)	**1990**	1989	1988	1987	1986
Total loans receivable	**3,853**	4,182	4,702	4,956	4,984
Allowance for loan losses	**279**	350	500	219	156
% of total loans receivable	**7.2**	8.4	10.6	4.4	3.1
Total owing on non-accruing loans	**641**	808	1,057	696	N/A
% of total loans receivable	**16.7**	19.3	22.5	14.0	N/A
Total arrears	**193**	283	377	343	245
% of total loans receivable	**5.0**	6.8	8.0	6.9	4.9

REAL PROPERTIES

The total value of real estate held by the Corporation at March 31, 1990 was $178 million, 31 per cent higher than at year end 1988-89. Whenever possible, properties are sold or leased at market rates to former owners to enable them to continue farming. During the year, the Corporation acquired $118 million in properties, while disposals totalled $76 million.



SOURCES AND USES OF CASH

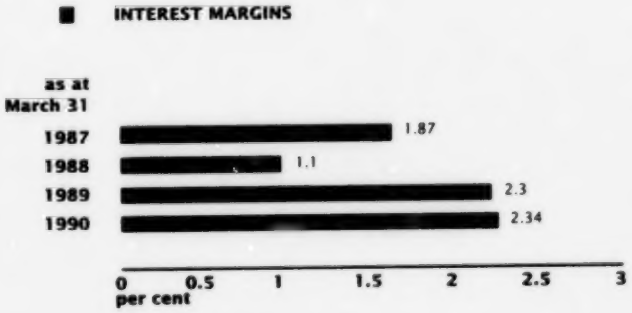
On an aggregate basis, the inflow of funds exceeded the outflow by $7 million during the year. The principal sources of funds were the $31[illegible] million of principal payments on loan receivables, $256 million provided by borrowing, $76 million in proceeds from real estate sales, and the $600 million increase in contributed capital. These funds were used primarily to service the Corporation's debt to the extent of $1,111 million and fund new loans disbursed to farmers of $185 million. Cash and short-term investments at year end totalled $48 million, an increase of $7 million from March 31, 1989.

FUNDING ACTIVITY

All funding for the year was sourced from the government's Consolidated Revenue Fund at prevailing market interest rates. Long-term borrowing of $256 million was secured to fund new lending and loan renewals. In addition to principal repayments of $511 million, the Corporation's outstanding debt was reduced by a further $600 million as a result of the financial restructuring agreement with the government.
As a result of following a policy of matched funding, the Corporation has also been able to reduce significantly its interest-rate risk exposure. Further reductions in interest-rate risk exposure are anticipated, as portfolio management approaches are refined and developed. It is also anticipated that FCC will be funding part of its future financial requirements in the domestic and international capital markets, at advantageous terms merited by its AAA credit status as a sovereign credit.

INTEREST RATES

Despite volatile interest rates during the year, the Corporation achieved an interest margin on the year's lending of 2.34 per cent, compared with last year's 2.30 per cent. Careful consideration and timing of funding combined with judicious lending rate adjustments allowed the Corporation to realize adequate interest margins, while at the same time offering attractive rates to its clients. By offering Canadian farmers innovative financial products (such as the Shared Risk Mortgage), which take advantage of developments in financial markets, loan demand remained strong throughout the year.



An Asset/Liability Management Committee of key financial and lending personnel was established to consider and recommend changes for more effective management of both assets and liabilities. More meaningful and timely reporting of key financial results and indicators, through enhanced management reporting standards and procedures, was also introduced.

Major studies are now under way to review and improve the Corporation's loan accounting system, which maintains complete financial information on some 64,000 accounts, and the asset/liability management system, which provides data and decision support information for portfolio management.

These initiatives will enable FCC to operate on a more fundamentally sound financial basis in future periods. As a result, the Corporation will continue to serve the farming community by providing a suitable alternative source of competitively priced credit to farmers who have reasonable potential for long-term viability.

FINANCIAL MANAGEMENT

Notable progress was made in improving the Corporation's financial control and reporting systems. During the year, major improvements were initiated as follows:

- an improved system to account for the interest calculations related to non-accruing loans;
- an improved real property accounting system, which provides better information for use in property management and the tracking of property transactions; and
- an improved system for calculating the estimates of the allowance for loan losses to provide more reliable data on probable loan losses.

FIVE-YEAR REVIEW

OPERATIONAL	**1989-90**	1988-89	1987-88	1986-87	1985-86
Total loans receivable portfolio					
Number	**63,884**	67,216	72,182	75,487	78,183
Amount ($ millions)	**3,852.8**	4,182.3	4,701.6	4,955.9	4,984.3
Under Farm Credit Act					
Number of loans approved	**2,371**	1,472	2,674	4,311	2,278
Amount of loans approved					
gross ($ millions)	**214.5**	136.1	333.8	610.1	247.0
net ($ millions)	**201.0**	102.3	206.8	336.4	237.7
Average size of loans approved gross ($)	**90,464**	92,444	124,827	141,530	108,413
Percentage of loans in good standing	**86.5**	84.5	81.7	80.5	81.9
Percentage of total owing in good standing	**77.6**	73.1	67.8	65.1	65.9
Real property held at year end					
number	**1,864**	1,485	911	476	370
amount ($ millions)	**178.3**	135.6	66.2	53.8	45.8
Under Farm Syndicates Credit Act					
Number of loans approved	**73**	22	39	44	37
Amount of loans approved ($ millions)	**2.5**	0.6	1.4	1.2	1.1

FINANCIAL	**1989-90**	1988-89	1987-88	1986-87	1985-86
Revenues and expenses ($ millions)					
Net interest income (expense)	**30.3**	(27.8)	(87.1)	(5.0)	11.3
Net provision for loan losses	**3.2**	(20.2)	394.0	98.3	99.4
Other income	**22.5**	12.5	4.6	3.9	1.6
Administrative expenses	**47.3**	39.4	35.3	33.1	35.0
Large corporations capital tax	**5.0**	-	-	-	-
Loss for the year	**2.7**	34.6	511.8	132.5	121.4
Non-accrual loans					
Number	**5,495**	7,040	7,950	4,211	N/A
Total owing ($ millions)	**641.4**	808.2	1,056.7	659.9	N/A
Reduction of interest income due to non-accrual ($ millions)	**30.9**	75.0	130.8	55.4	40.0
Financial position ($ millions)					
Total assets	**3,816.7**	4,031.7	4,310.4	4,908.6	5,015.0
Total liabilities	**3,890.6**	4,702.9	4,947.0	5,033.0	5,007.0
Equity (Deficiency) of Canada	**(73.9)**	(671.2)	(636.6)	(124.8)	7.7

ANNUAL FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

The approach followed by the Corporation to estimate the allowance for loan losses, on a consistent basis with past years, includes a specific review of undersecured loans and a general estimate of probable losses inherent in the secured portion of the portfolio.

As a result of loans going through the recovery process the amount of the allowance attributable to specific individual loans has declined from the March 31, 1989 level. The increased uncertainty facing Canadian agriculture at this time, and its potential negative impact on farmers' ability to repay and the value of the Corporation's security has, in management's judgement, necessitated an increase in the general component of the allowance by $90 million. The general allowance is prudential in nature, and provides for loan losses which have not been specifically identified.

Other than an amount of $3.2 million, which was charged to operations to provide for probable loan losses on current year lending, no amount has been charged to or credited to operations with regard to the allowance for loan losses. The Board of Directors supports management's opinion that, in an environment of high interest rates, low export prices, forecasts of reduced farm incomes, particularly in the grain sector, and the uncertainty surrounding the current GATT negotiations, it would be imprudent to further reduce the allowance at this time.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

James J. Hewitt
Chairman and Chief Executive Officer

Max Pierce
Senior Vice-President, Finance

AUDITOR'S REPORT

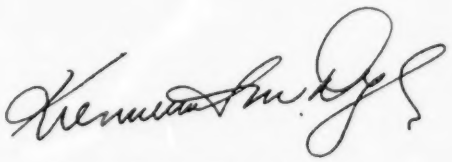
To the Minister of Agriculture

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1990 and the statements of operations and deficit and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

Loans of $3,573 million are stated net of an allowance for loan losses of $279 million. Although the Corporation has provided me with evidence and analyses in support of the inclusion of $188 million in the allowance, it was unable to provide adequate support for the balance of $91 million. As a consequence, I was unable to satisfy myself as to the appropriateness of this additional amount. Accordingly, I was unable to determine whether any adjustments might be necessary to the allowance for loan losses and consequentially to the change in estimate - provision for loan losses, the net income (loss) for the year and the deficit.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself with respect to the appropriateness of the additional $91 million in the allowance for loan losses described in the preceding paragraph, these financial statements present fairly the financial position of the Corporation as at March 31, 1990 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.



Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 7, 1990

BALANCE SHEET

	1990	1989
		(000's)
Assets		
Cash and short-term investments	**$ 48,104**	$ 40,894
Accounts receivable	**2,277**	4,720
Loans, net of allowance for loan losses of $279,365 (1989 - $350,000) (Notes 3 and 4)	**3,573,414**	3,832,351
Real estate acquired in settlement of loans (Note 5)	**178,281**	135,642
Fixed assets	**5,113**	3,793
Unamortized debt discount and issue expenses	**9,530**	14,319
	$3,816,719	$4,031,719
Liabilities		
Accounts payable and accrued liabilities	**$ 16,466**	$ 6,549
Short-term notes	**110,456**	69,269
Provision for employee termination benefits	**3,154**	2,807
Loans payable (Note 6)	**3,760,523**	4,624,285
	3,890,599	4,702,910
Deficiency of Canada		
Contributed capital (Note 8)	**818,333**	218,333
Deficit	**(892,213)**	(889,524)
	(73,880)	(671,191)
	$3,816,719	$4,031,719

Approved on behalf of the Board by:

James J. Hewitt
Chairman and
Chief Executive Officer

George Klosler
Director

STATEMENT OF OPERATIONS AND DEFICIT

	1990	1989
		(000's)
Interest income		
Loans receivable	**$386,347**	$389,410
Short-term investments	**13,801**	5,581
	400,148	394,991
Interest expense		
Loans payable	**356,545**	410,972
Short-term notes	**13,305**	11,840
	369,850	422,812
Net interest income (expense)	**30,298**	(27,821)
Provision for loan losses - current year lending (Note 4)	**(3,202)**	(2,203)
Lease and other revenue from real estate, net of operating expenses of $5,496 (1989 - $5,653)	**20,779**	11,157
Other income	**1,763**	1,377
Income (loss) before non-interest expenses	**49,638**	(17,490)
Administrative expenses	**47,337**	39,444
Income taxes - large corporations capital tax (Note 9)	**4,990**	–
Loss from current year's operations	**(2,689)**	(56,934)
Change in estimate - provision for loan losses	–	22,372
Loss for the year	**(2,689)**	(34,562)
Deficit at beginning of the year	**889,524**	854,962
Deficit at end of the year	**$892,213**	$889,524

STATEMENT OF CHANGES IN CASH POSITION

	1990	1989
	(000's)	
Operating activities		
Loss for the year	**$ (2,689)**	$ (34,562)
Items not involving cash		
Net provision for loan losses	**3,202**	(20,169)
Change in accrued interest receivable	**4,285**	19,185
Change in accrued interest payable	**(9,100)**	(14,736)
Amortization of debt discount and issue expenses	**4,789**	5,148
Provision for income taxes	**4,990**	–
Other	**7,700**	(3,012)
Cash provided by (used in) operating activities	**13,177**	(48,146)
Investing activities		
Loans to farmers	**(185,338)**	(107,958)
Loans receivable repaid	**313,409**	330,232
Proceeds from disposal of real estate	**75,748**	78,551
Other	**3,689**	(1,546)
Cash provided by (used in) investing activities	**207,508**	299,279
Financing activities		
Loans from Canada	**256,550**	130,350
Loans repaid to Canada	**(998,669)**	(246,896)
Loans repaid to capital markets	**(112,543)**	–
Increase in contributed capital	**600,000**	–
Change in short-term notes	**41,187**	(112,674)
Cash provided by (used in) financing activities	**(213,475)**	(229,220)
Increase in cash and short-term investments	**7,210**	21,913
Cash and short-term investments at beginning of the year	**40,894**	18,981
Cash and short-term investments at end of the year	**$ 48,104**	$ 40,894

NOTES TO FINANCIAL STATEMENTS

1. THE CORPORATION

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act, and administers programs as requested by the Government of Canada ("the government").

The Corporation's objective, as clarified in the Corporate Plan approved in 1988, is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by the government, to deliver specific government programs on a cost-recovery basis.

(b) Financial restructuring

The government has approved a financial restructuring for the Corporation which covers a four-year period ending March 31, 1992. It provides for the financial restructuring of the Corporation and establishes operating policies and management guidelines within which the Corporation is to operate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when:

1. Principal or interest is six months past due, unless the loan is well secured, or
2. When circumstances indicate doubt as to the ultimate collectibility of principal or interest.

When a loan is classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments on non-accrual loans are recorded as interest income when received, where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans return to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Lease and other revenues from real estate are recorded when earned.

Loan fees and charges are recorded as other income when earned.

(b) Allowance for loan losses

The allowance for loan losses represents management's best estimate of probable losses on the loans outstanding at the end of the year. The allowance has a specific component which is based on the review of outstanding undersecured loans and a general component, which is prudential in nature, to provide for loan losses which have not yet been specifically identified.

The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered including future land values, commodity prices, federal and provincial governments' programs, and climatic conditions. Management has estimated the effect of these risks and uncertainties when determining the allowance for loan losses. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The government has agreed to reimburse the Corporation for concessions it will make to farmers during the next year as a result of its participation in the Farm Debt Review Board process. The type of concessions to be made through the process, and the extent to which they will reduce the Corporation's loan losses, are not presently known. They are, therefore, not included in establishing the allowance for loan losses.

Actual loan losses, write-downs of acquired real estate, and losses on the sale of real estate are charged to the allowance while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the amount of the loan outstanding or the estimated net realizable value at the time of acquisition. Subsequent declines in estimated net realizable value are recorded in the year in which they occur.

(d) Farm Debt Review Process

Amounts received on behalf of farmers for concessions granted by the Corporation under the farm debt review process are applied as if they had been received directly from the farmers.

(e) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation or amortization. Depreciation and amortization are provided over the estimated useful lives of the fixed assets according to the following methods and rates:

	METHODS	RATES
Equipment and furniture	Declining balance	20%
Computer equipment & software	Straight-line	20%
Leasehold improvements	Straight-line	Lease term plus the first renewal option.

(f) Debt discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the life of the debt and are included in interest expense on loans payable.

(g) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are included with debt discount and issue expenses. These amounts are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(i) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(j) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred tax benefits which have not been recorded and will only be recognized when there is virtual certainty that they will be realized.

3. LOANS

	ANNUAL INTEREST RATE %	1990	1989
		(000's)	
Loans to farmers, secured by mortgages	5 - 16 ¾	**$3,808,429**	$4,137,681
Loans to farm syndicates, secured by notes	6 ¼ - 16 ½	**5,400**	4,858
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5 - 15 ¾	**38,950**	39,812
		3,852,779	4,182,351
Less: Allowance for loan losses		**279,365**	350,000
		$3,573,414	$3,832,351
Amounts due by fiscal year, based on loan terms, are as follows:			
Principal past due		**$ 48,640**	$ 55,550
1990		**–**	425,767
1991		**236,661**	252,293
1992		**294,419**	294,685
1993		**294,176**	290,456
1994		**422,187**	456,964
1995		**377,520**	335,925
1996 and beyond		**1,995,748**	1,836,342
		3,669,351	3,947,982
Accrued interest - current		**113,245**	78,815
- arrears		**70,183**	155,554
		$3,852,779	$4,182,351

At March 31, 1990, the Corporation had 5,495 loans representing $642 million of loans receivable classified as non-accrual (1989 - 7,040 representing $808 million). During the year, interest not recognized on non-accrual loans amounted to $31 million (1989 - $75 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1990 amounted to $122 million (1989 - $171 million).

4. ALLOWANCE FOR LOAN LOSSES

The summary is as follows:

	1990	1989
	(000's)	
Balance at beginning of the year	**$350,000**	$ 500,000
Write-offs, net of recoveries	**(73,837)**	(129,831)
Provision for loan losses – current year lending	**3,202**	2,203
Change in estimate – provision for loan losses	**–**	(22,372)
Balance at end of the year	**$279,365**	$ 350,000
Specific allowance	**$124,365**	$ 285,000
General allowance	**155,000**	65,000
Balance at end of the year	**$279,365**	$ 350,000

5. REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

The summary is as follows:

	1990	1989
	(000's)	
Balance at beginning of the year	**$135,642**	$ 66,204
Acquisitions	**118,205**	138,299
Disposals	**(75,566)**	(68,861)
Balance at end of the year	**$178,281**	$135,642

Real estate represents farm property acquired in the process of administering loans receivable and must be disposed of within five years of acquisition or such further period as the Governor-in-Council may prescribe.

The Corporation has 1,864 properties (1989 - 1,485), of which 1,010 ($76 million) are saleable within the next year. Of these, 650 properties ($67 million) may be eligible for lease renewal. The balance are leased for periods of up to four years.

6. LOANS PAYABLE

	ANNUAL INTEREST RATE %	1990	1989 (000's)
Loans from Canada, secured by notes			
Farm Credit Act	6 - 12	**$2,442,104**	$3,182,998
Farm Syndicates Credit Act	9 ¼ - 11	**3,736**	4,962
Loans from capital markets, secured by notes			
Farm Credit Act			
Payable in:			
U.S. dollars (435,000,000)	9 - 10 ½	**591,447**	591,447
Swiss Francs (100,000,000)	11	**59,666**	59,666
Japanese Yen (7,660,000,000)	9 ¼	**69,500**	182,043
Canadian dollars	9 - 12 ¼	**495,000**	495,000
		3,661,453	4,516,116
Accrued interest		**99,070**	108,169
		$3,760,523	$4,624,285
Amounts due by fiscal year are as follows:			
1990		**$ -**	$1,030,087
1991		**506,854**	470,392
1992		**423,305**	416,218
1993		**446,037**	640,663
1994		**543,069**	528,868
1995		**372,948**	302,126
1996 and beyond		**1,369,240**	1,127,762
		3,661,453	4,516,116
Accrued interest		**99,070**	108,169
		$3,760,523	$4,624,285

As part of the financial restructuring, $600 million of loans from Canada was repaid during the year from the increase in contributed capital. The government decided that no interest would be payable on these loans throughout the year.

7. LIMITS ON BORROWING

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the contributed capital of the Corporation. At March 31, 1990, the Corporation's outstanding borrowings under this Act, comprising short-term notes of $103 million and loans payable of $3,658 million, were 4.60 times the contributed capital of $818 million (1989 - 20.95 times the contributed capital of $218 million).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to $25 million. At March 31, 1990, the Corporation's loans from Canada under this Act were $4 million (1989 - $5 million).

The Corporation continued to be restricted to borrowing its short- and long-term funding requirements from the government's Consolidated Revenue Fund. These borrowings require the approvals of both the Governor-in-Council and the Minister of Finance.

8. CONTRIBUTED CAPITAL

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. The statutory limit was increased by $600 million in the current year to $825 million (1989 - $225 million).

As part of the financial restructuring, Canada increased its contributed capital by $600 million. The Corporation has applied these amounts to the repayment of loans from Canada.

9. INCOME TAXES

(a) Timing differences of approximately $392 million are available to the Corporation as at March 31, 1990. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carryforward for income tax purposes which has not been recognized in the financial statements amounts to $438 million. Of this amount, $8 million will expire on March 31, 1993, $14 million on March 31, 1994, $118 million on March 31, 1995, $194 million on March 31, 1996 and $104 million on March 31, 1997.

(b) During the year, the government announced its intention to implement a large corporations capital tax. As at March 31, 1990 the required legislation had not been approved by Parliament. This tax would be effective on July 1, 1989 and may be offset against any surtax payable. Since the Corporation has no surtax payable, the amount paid may be carried forward to be offset against any future surtax payable, and will expire by March 31, 1997 if not utilized.

10. COMMITMENTS TO FARMERS

As at March 31, 1990, loans to farmers approved but not disbursed amounted to $47 million (1989 - $23 million). These loans were approved at rates from 12 to 13.75 per cent. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1990, from funds to be borrowed by the Corporation at prevailing rates of interest at the time of borrowing.

11. OPERATING LEASES

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(000's)
1991	$ 2,558
1992	2,436
1993	1,817
1994	1,196
1995	944
1996 and beyond	2,327
	$11,278

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

12. GOVERNMENT PROGRAMS

(a) Commodity-based Loan Program

In its budget announcement of February 26, 1986, the government instructed the Corporation to establish the Commodity-based Loan Program for existing clients of the Corporation who were experiencing financial difficulty and who met certain eligibility criteria. The program provides for reduced interest rates with loan principal indexed to changes in commodity prices. The resulting net cash flow deficiencies, if any, are made up by the government subject to annual Parliamentary appropriation.

During the year, Commodity-based Loans in the amount of $2.6 million (1989 - $29 million) were disbursed, of which $0.4 million (1989 - $3 million) was used to pay arrears on the Corporation's previous loans. In addition, $13 million was received from the government in respect of cash flow deficiencies (1989 - $16 million) related to the Commodity-based Loan Program.

In the budget announcement of April 27, 1989, the government cancelled future lending under the Commodity-based Loan Program. Existing loans will, however, continue to be administered under the Program.

(b) Farm Debt Review Process

Subject to annual parliamentary appropriation, the Minister of Agriculture has been authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the Farm Debt Review Act. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments, or the Corporation proceeds with recovery action.

The government has allocated up to $270 million for concessions to be granted over the period ending March 31, 1991. Since the inception of the farm debt review process, the Corporation has offered $107 million in concessions and received $76 million from the government of which $39 million was received in the current year and $37 million in prior years. The committed difference of $31 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

13. COMPARATIVE FIGURES

Certain 1989 comparative figures have been reclassified to reflect the presentation adopted in 1990.

CORPORATE DIRECTORY

The Board of the Corporation has seven members appointed by the Governor-in-Council. The Chairman and Vice-Chairman of the Board are also officers of the Corporation. The Chairman is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.

MEMBERS OF THE BOARD

Standing, from left to right:

John McKenna*
Potato marketer, Prince Edward Island

Judy Lloyd*, CMA
Certified Management Accountant,
Alberta

Thomas S. Barton
Senior Vice-President,
General Counsel and Corporate Secretary

C. Gerald Penney, CA
Vice-Chairman and Chief Operating Officer

George Klosler*
Tobacco, grain, ginseng and hog producer,
Ontario

Seated, from left to right:

Jeannine Bourque
Beef and hog producer, Québec

James J. Hewitt*, FCMA
Chairman and Chief Executive Officer

Frank Claydon
Assistant Deputy Minister,
Agriculture Canada

** Member of the Audit Committee*

The Advisory Committe is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. Most members are farmers or operators of agricultural businesses.

MEMBERS OF ADVISORY COMMITTEE

Standing, from left to right:

Jack Cumming
Ontario

Don Swenson
Saskatchewan

Leon Bremner
New Brunswick

Keith Barrett
Prince Edward Island

Don Knoerr
British Columbia

Seated, from left to right:

Jeannine Caron-Giasson
Québec

Garnet Rickard, Chairman
Ontario

Edward Mazer
Manitoba

William A. Verhagen
Alberta
(Absent when photo was taken)

CHAIRMEN OF APPEAL BOARDS

Appeal Boards, composed of farmers of proven ability and judgement, are established in each province to hear appeals from farmers who are dissatisfied with the Corporation's decision on their loan applications. During the year, 21 farmers went to an Appeal Board. Based on their recommendations, FCC modified its decision on five applications.

E.T. (Ted) Osborn
British Columbia

George Templeton
Alberta

Dennis C. Boldt
Saskatchewan

Kenneth Lyle Young
Manitoba

Edward J. Mailloux
Ontario

Robert Brochu
Québec

W. Burris Coburn
New Brunswick

Thomas Meredith
Nova Scotia

Wilbert MacKenzie
Prince Edward Island

Dennis Galway
Newfoundland

SENIOR EXECUTIVES

James J. Hewitt
Chairman and
Chief Executive Officer

C. Gerald Penney
Vice-Chairman and
Chief Operating Officer

Thomas S. Barton
Senior Vice-President,
General Counsel and
Corporate Secretary

Brian Strom
Senior Vice-President,
Operations

Max Pierce
Senior Vice-President,
Finance

Terry Kremeniuk
Vice-President,
Research and Planning

SuzAnne Doré
Vice-President,
Administration

Pierre Laflamme
Vice-President,
Corporate Audit

Dave Fraser
Vice-President, Lending

Madonna Bailey
Vice-President and
Treasurer

Colin M. Brooker
Vice-President and
Controller

Janice Whitters
Executive Assistant to the
Vice-Chairman and
Assistant Corporate
Secretary

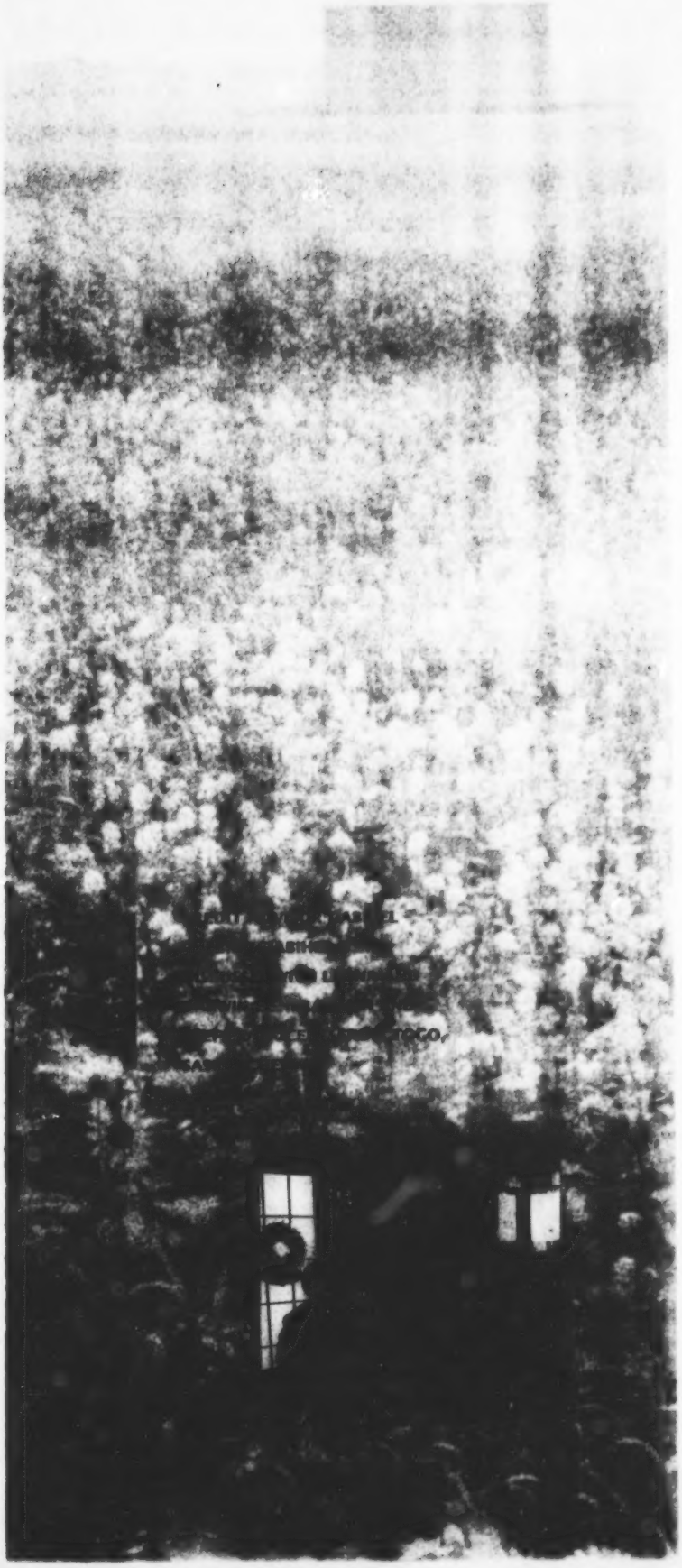
DESIGN : MARUSKA STUDIOS

PHOTOGRAPHY:

ALRICK HUEBENER
DAN MARUSKA
DAVE MCNEIL
JOHN SLEEMAN

IN-PRO
INDUSTRY, SCIENCE AND TECHNOLOGY CANADA
MITCH PHOTOGRAPHY
ROSS DAVIDSON PILON

	REGIONAL OFFICES	*DISTRICT OFFICES*	*FIELD OFFICES*
ALBERTA/ BRITISH COLUMBIA*	**George Jones** Regional Vice-President 101 St. Building Suite 1550 10250-101st Street Edmonton T5J 3P4 (403) 495-4488	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Athabasca, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton, Evansberg, Fairview, Falher, Hanna, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
*Yukon Territory is served through the Edmonton Office			
SASKATCHEWAN	**Russ Holm** Regional Vice-President 2401 Saskatchewan Dr. Suite 110 Regina, S4P 4H9 (306) 780-5610	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown,Tisdale, Weyburn, Wynyard
MANITOBA	**Marshall Stachniak** Regional Vice-President 400-5 Donald St. Winnipeg R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie, Winnipeg	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Virden
ONTARIO	**Bob Aumell** Regional Vice-President 450 Speedvale Ave. West Unit 201 Guelph N1H 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Cornwall, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
QUÉBEC	**Jacques Doran** Regional Vice-President Édifice Champlain Suite 2000 2700 Laurier Blvd. Box 3600 Ste-Foy G1V 4C7 (418) 648-3993	Ste-Foy, St-Hyacinthe, Rock Forest	Alma, Arthabaska, Cap-de-la-Madeleine, Drummondville, Gatineau, Granby, Joliette, Rimouski, Roberval, St-Georges de Beauce, St-Jean, St-Jérôme, Valleyfield
ATLANTIC	**John van Abbema** Regional Vice-President Boulevard Plaza Phase 1, Suite 230 1133 St. George Blvd. Moncton, N.B. E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Fredericton, Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock



1990-91 OBJECTIVES

PRIMARY OBJECTIVES

- To be an alternative source of competitively priced credit to Canadian farmers who have reasonable potential for viability.

- To work with financially distressed clients to resolve their financial difficulties quickly and equitably so that by the end of the planning period in 1994, 93 per cent of the dollar amount of FCC's loan portfolio and 97 per cent of the accounts are classified as performing.

- To restore Farm Credit Corporation to an economically viable position by seeking an appropriate capital structure and conducting its lending operations on a break-even basis.

ENABLING OBJECTIVES

- To optimize corporate performance by applying sound business principles and practices.

- To explore and develop new products and services for the benefit of Canadian farmers.

- To assist employees to continue to maximize their performance through training and a positive working environment.

- To attract outstanding new employees including representative numbers of women, disabled persons, aboriginal people, members of visible minorities and of all cultural groups reflected in Canadian society through excellence in recruiting measures.

Canada